ALJ/KLK/tcg **DRAFT** Agenda ID #5281
Ratesetting
1/26/06

Decision ___________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of West Coast Gas Company to Revise its Gas Rates and Tariffs. (U-910-G)	Application 05-04-014 (Filed April 5, 2005)

OPINION ADOPTING A SETTLEMENT REGARDING A GENERAL RATE INCREASE

1. Summary

This decision adopts an uncontested settlement agreement (settlement) between West Coast Gas Company (WCG) and the Commission's Division of Ratepayer Advocates (DRA)[1] regarding WCG's request for a general increase in its natural gas rates.

The settlement requires WCG to reduce its long-term liability, and restricts WCG from filing another general rate case (GRC) application before April 1, 2008. The settlement also allows WCG to recover, by advice letter, certain revenue requirement increases resulting from gas transportation charges.

The settlement includes:

1) an increase in WCG's revenue requirement of $136,376, that results in an 8.5% increase over currently authorized base rates,

[1] Formerly the Office of Ratepayer Advocates. Change effective January 1, 2006, pursuant to Senate Bill 608.

2) a $3.00 per month residential customer charge,
3) a one-time $25 non-refundable application processing fee for residential customers, and
4) a 20% rate discount to low-income customers for the monthly charge and the application. Low-income customers may spread the payment of the processing fee over four months.

With the adoption of the settlement, this proceeding is closed.

2. Background

WCG is a small natural gas distribution utility serving the former Mather (Sacramento County) and Castle (Merced County) Air Force Bases, and the federal prison at Herlong (Lassen County). WCG began regulated gas utility operations for its Mather service territory in April 1997, and its Castle service territory in October 1998. At the end of 2004, WCG had 1,262 residential customers and 114 industrial customers.

3. Procedural History

Resolution G-3282, dated August 3, 2000, required WCG to file a GRC in 2002. WCG submitted Advice Letter 49-G in April 2002 for a deviation from Resolution G-3282 requesting instead to file its GRC by advice letter. WCG did not request a rate increase in the advice letter, but did include cost of service data supporting a 12.9% rate increase for test year 2003. Resolution G-3335, dated June 27, 2002, allowed WCG to file its GRC by advice letter, approved WCG's gas rates at then current levels, and ordered WCG to file a GRC application by April 2005. WCG filed the subject application on April 5, 2005. DRA filed a protest on May 2, 2005 (no other party opposed the application).

On June 9-10, 2005, DRA staff reviewed relevant financial records in WCG's Sacramento office. A prehearing conference (PHC) was held on June 14, 2005. During the PHC, the parties agreed to attempt a settlement of the issues before holding an evidentiary hearing. Staff from the Commission's Energy Division also attended the PHC, in an advisory capacity. A schedule for settlement discussions, briefs and replies, and possible evidentiary hearing was established at the PHC. The Assigned Commissioner and Administrative Law Judge (ALJ) issued a Scoping Memo on June 17, 2005 that included the agreed upon schedule.

On July 28, 2005, pursuant to Rule 51.1 of the Rules of Practice and Procedure (Rules), DRA served a "Notice of Settlement Conference" on all parties to this proceeding. WCG and DRA held a settlement conference on August 8, 2005, in San Francisco. On August 16, 2005, pursuant to Rule 51.3, DRA and WCG filed a Joint Motion for Adoption of Settlement Agreement, and a Request for Waiver and Shortening of Comment Periods.

Copies of the joint motion, settlement agreement, and related DRA staff report are included in Appendix A of today's decision.

4. The Application

In its application, WCG requested:

- An increase in its revenue requirement of $136,376 per year.
- Establishment of a $3.00 monthly customer charge to residential customers.
- A revision to its gas Rule 7 to establish a $30.00 non-refundable application fee for residential customers. Currently WCG charges a $75.00 application fee refundable at the end of 12 consecutive and timely monthly bill payments.
- A July 1, 2005 effective date for rate increases.
- Authority to file a GRC application by April 1, 2006 using a 2006 test year.

WCG stated its revenue should be increased by $256,000 per year to earn a 7.2% after-tax return on its 2005 rate base. Instead, WCG proposed a revenue requirement of $136,376 for test year 2005, and authority to file a new GRC application on April 1, 2006. WCG reasoned its proposal would: 1) minimize the impact on residential customers, on whom most of the increases will fall; and 2) avoid large increases in local gas transportation rates charged to WCG by Pacific Gas and Electric Company (PG&E), by making additional capital investments at Mather from its 2006 test-year rate base. As additional justification, WCG stated it over-estimated customer sales at Mather by 30%, and experienced lower base rate revenues resulting from 80% of residential gas sales being at baseline rates.

Under WCG's proposal, its residential rates for test year 2005 would increase by 15%, and commercial rates by 5%. Rate relief sought in this application is based solely on the costs of owning, operating and managing gas distribution systems at Mather and Castle, and does not include revenue associated with gas procurement, gas transportation to WCG, or Public Purpose Programs.

5. DRA Protest

DRA based its protest on its analysis of the methodology for developing estimates of test year revenues, gas sales, depreciation, and other expenses. DRA also objected to WCG filing another GRC in 2006.

6. The Settlement

On August 16, 2005, DRA and WCG filed a Joint Motion for Adoption of a Settlement Agreement and Request for Waiver and Shortening of Comment Period. The settlement is uncontested. Based on information in the settlement, the assigned Administrative Law Judge determined evidentiary hearings were unnecessary and removed this matter from the Commission's Daily Calendar.

Relating to rates, the settlement provides for:

- a revenue requirement increase of $136, 376.
- a revenue allocation that results in an 11% rate increase to residential customers, and a 7.1% increase to commercial customers.
- a $3.00 monthly charge for residential customers, with a 20% discount for low-income residential customers.
- a non-refundable residential application fee of $25, discounted to $20 for low-income residential customers who also have the option of paying over a four-month period.

The settlement also provides that:

- WCG can seek cost recovery, via advice letter, of any revenue requirement increase based on: 1) increases in PG&E's gas transportation rates to WCG; and 2) any incremental capital improvements to facilitate transmission level service from PG&E.
- WCG will reduce its long-term liability account (Account 231 - Loans from Stockholders), from $85,000 to $60,000.
- WCG may file its next base rate GRC application no earlier than April 1, 2008, for a 2009 test year.

7. Discussion

We find it in the public interest to approve and adopt the settlement negotiated by DRA and WCG. The settlement provides a revenue requirement lower than what might be justified, and restricts WCG from filing its next GRC any earlier than April 2008. As a result, WCG customers will experience more moderate rate increases during a time when natural gas prices are significantly increasing. The new monthly customer charge and new service application fee are not overly burdensome, are at the same or lower level than WCG's request, and provide for a low-income customer discount. The correction to WCG's financial statements, and the provision to allow WCG to file by advice letter for any incremental capital improvements to facilitate transmission level service from PG&E, are also reasonable.

The parties agree the settlement resolves all issues between the WCG and DRA. The criteria for settlements are set forth in Rule 51.1(e), which states that settlements must be reasonable in light of the whole record, consistent with the law, and in the public interest. We conclude that the settlement agreement is consistent with these criteria, and approve and adopt it here. Within 30 days of the effective date of today's decision, WCG shall file an advice letter implementing the rates and charges adopted in the settlement.

8. Waiver of Comment Period

The parties requested a waiver of the comment period on the settlement. Pursuant to Rule 51.4, comments and replies to proposed settlements may be filed "whenever a party to a proceeding does not expressly join in a stipulation or settlement." Here, no evidentiary hearing was held and the settlement is uncontested. A settlement comment period and comment period on the draft decision are therefore unnecessary.

9. Categorization of Proceeding and Need for Hearing

This proceeding was preliminarily categorized as ratesetting, and we preliminarily determined that a hearing would be necessary as the application was protested. Based on the record, we conclude that the proceeding is properly categorized, and, in light of the settlement, a hearing is unnecessary.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

10. Assignment of Proceeding

This proceeding is assigned to Commissioner Geoffrey F. Brown and ALJ Kenneth L. Koss.

Findings of Fact

1. WCG filed the subject application for a rate increase, and for authority to establish a monthly customer charge and a non-refundable application fee for new service.
2. DRA timely protested the application.
3. On June 14, 2005, during the PHC in this proceeding, the parties agreed to attempt a settlement of the issues before holding an evidentiary hearing.
4. DRA served a notice of settlement conference on July 28, 2005.
5. The parties held a settlement conference in San Francisco on August 8, 2005.
6. On August 16, 2005, the parties filed a Joint Motion for Adoption of Settlement Agreement and Request for Waiver and Shortening of Comment Periods and jointly moved for its approval.
7. The settlement allows for an 11% rate increase to residential customers and a 7.1% increase to commercial customers.
8. The settlement allows WCG to establish a monthly customer charge of $3.00 to residential customers, with a 20% discount for low-income customers.

9. The settlement allows WCG to charge a one-time $25 non-refundable application processing fee, with a 20% discount for low-income customers who also have the option of paying over a four-month period.

10. WCG will correct its financial statements by reducing its long-term liability account (Account 231 - Loans from Stockholders) by $25,000.

11. The settlement provides that WCG can seek cost recovery, via advice letter process, for revenue requirement increases for: 1) increases of PG&E's gas transportation rates to WCG; and 2) any incremental capital improvements to facilitate transmission level service from PG&E.

12. The Settlement provides that WCG may file its next GRC application no earlier than April 1, 2008 for a 2009 test year.

13. The settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

14. The settlement is uncontested and resolves all issues between WCG and DRA.

Conclusions of Law

1. The proposed settlement agreement between WCG and DRA should be adopted.

2. The comment periods on the settlement and on the draft decision should be waived.

3. WCG should file an advice letter with the Commission within 30 days of the effective date of this decision implementing the rates and charges contained in the settlement agreement.

4. Today's order should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. The Settlement Agreement, included herein as Appendix A, between West Coast Gas Company (WCG) and the Commission's Division of Ratepayer Advocates is approved and adopted.
2. The period for comments on the settlement and on the draft decision are waived as this is an uncontested matter in which the decision grants the relief requested.
3. Within 30 days of the effective date of this decision, WCG shall file an advice letter implementing the rates and charges in the approved Settlement Agreement.
4. Application 05-04-014 is closed.

This order is effective today.

Dated ______________________, at San Francisco, California

APPENDIX A
Page 1

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of WEST COAST GAS COMPANY (U 910-G) to Revise its Gas Rates and Tariffs	A.05-04-014

JOINT MOTION FOR ADOPTION OF SETTLEMENT AGREEMENT AND REQUEST FOR WAIVER AND SHORTENING OF COMMENT PERIODS

INTRODUCTION

Pursuant to Rule 51.1, 51.2, and 51.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC" or "Commission"), the Office of Ratepayer Advocates ("ORA") and West Coast Gas Corporation ("WCG"), collectively referred to as "Parties," jointly move the Commission for approval and adoption of the Settlement Agreement ("Settlement Agreement" or "Settlement") attached hereto as Appendix A. The Parties also request a waiver of the settlement Comment period and a shortening of the Proposed Decision Comment period. ORA's Report on West Coast Gas, Test Year 2005 General Rate Case is attached hereto as Appendix B. The Settlement Agreement represents a just, reasonable, and fair resolution of all issues in Application No. (A.) 05-04-014. Pursuant to Rule 2.2(d) of the Commission's Rules of Practice and Procedure, ORA is authorized to execute this Joint Motion on behalf of WCG.

APPENDIX A
Page 2

The purpose of the Joint Motion is to facilitate the Commission's expeditious consideration and adoption of the Settlement Agreement. The Parties believe that the Settlement Agreement is: (1) reasonable in light of the record; (2) consistent with law; and (3) in the public interest.

BACKGROUND

On April 5, 2005, WCG filed a test year (TY) 2005 general rate case (GRC) application for its gas distribution operations under the Commission's jurisdiction. In A.05-04-014, WCG seeks a $136,376 increase—to go into effect on July 1, 2005—for gas distribution operations in the Mather and Castle service territories; this amounts to an 8.5% increase over base rates currently authorized by the Commission.

On May 2, 2005, ORA filed a protest to WCG's application. A prehearing conference was held on June 14, 2005, and attended by WCG, ORA and the Energy Division. No other party made an appearance. On July 28, 2005, ORA served a "Notice of Settlement Conference" to all parties on the service list of this proceeding. The Notice, provided in accord with Rule 51.1(b) of the Commission's Rules of Practice and Procedure, indicated that settlement talks would be held at the CPUC's San Francisco office on August 8, 2005. On August 8, 2005, representatives from ORA and WCG agreed on the Settlement Agreement as presented in Attachment A. The Settlement Agreement resolves all the issues raised in the general rate case application

The Parties request that the Commission adopt the Settlement Agreement.

THE SETTLEMENT IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST

Under Rule 51.1(e) of the Commission's Rules of Practice and Procedure, in order for a settlement to be approved by the Commission, the settlement must be: (1) reasonable in light of the whole record; (2) consistent with law; and (3) in the public

APPENDIX A
Page 3

interest. (*See* D.04-07-006, *PG&E v. Calpine Corp.*, et al., "Opinion Approving Settlement," *mimeo* pp. 10-15.) Recently, in D.04-05-055, in approving a comprehensive settlement of most of the issues, the Commission stated:

> In evaluating whether a settlement meets these criteria, we consider a variety of factors, including the strength of the applicant's case, the development of the record, including the extent to which discovery has been completed, whether the major issues are addressed by the settlement, and the reaction and/or support of interested parties. (D.04-05-055, *mimeo*, p. 20.)

The settlement is reasonable in light of the whole record. The Commission should note that the Parties fully developed their positions and prepared testimony. WCG submitted testimony with its application. ORA thoroughly reviewed the record, including discovery and documentation provided by WCG, was in constant communication with WCG on potential concerns, and is timely submitting testimony with this filing. Thus, Parties were fully prepared to assess the strengths and weaknesses of all positions when they negotiated this settlement.

The settlement is based on the positions of the Parties as presented in the testimony, and represents a compromise between the Parties' positions. While the Parties were generally very close on most issues, a few concessions were made on both ends. For example, although WCG estimated that base rate revenues would need to be increased by $256,329 to earn a full return on rate base, it only requested an increase of $136,376 for test year 2005 and wanted to file another application in 2006 for another rate increase. Meanwhile, ORA estimated that only a $176,500 rate increase would be needed for WCG to earn a full return on rate base and recommended that WCG not be allowed to file its next general rate case (GRC) application in 2006. The parties agreed on a $136,376 revenue requirement increase for 2005, and that WCG file its next GRC

APPENDIX A
Page 4

application no earlier than April 1, 2008, for a 2009 test year. ("Settlement Agreement", p. 3.) Additionally, Parties agreed to WCG's proposal to replace refundable customer deposits with application fee, provided that WCG: (1) set the one-time fee for residential customers at $25 instead of $30; (2) discount the one-time fee by 20%—to make it $20—for low-income residential customers; and (3) give low-income customers the option to spread the one-time fee across four months' bills. (Id.)

The Settlement Agreement is consistent with the law. In its Protest, ORA raised the concern that WCG's proposal to file another General Rate Case next year would be inconsistent with the Commission's Rate Case Plan. However, the three-year cycle agreed to by the parties is consistent with the Rate Case Plan. (Settlement Agreement, Section IV G.) The parties believe, and herein represent, that no term of the Settlement Agreement contravenes statutory provisions or prior Commission decisions.[2] The Parties reached settlement in accordance with Rules 51.1 through 51.10 of the Rules.

Parties agree that granting WCG the requested base rate revenue requirement is in the public interest. The Parties, through their testimony, have demonstrated that the rate increase is necessary and reasonable, and advances the public's interest by ensuring that WCG's customers continue to receive safe and reliable gas service, and assurance of rate stability. (See Settlement Agreement and ORA's Report on West Coast Gas, Test Year 2005 General Rate Case attached as Appendices A and B, respectively.) Additionally,

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[2] In D.00-09-037 the Commission based its finding that the third criteria had been met on representation by the settling parties that they expended considerable effort ensuring that the Settlement Agreement comports with statute and precedents, and did not believe that any of its terms or provisions contravene statute or prior Commission decisions.

APPENDIX A
Page 5

the requested rate increase was uncontested by any of WCG's customers or any member of the public. Furthermore, the Settlement Agreement benefits ratepayers and serves the public interest by expeditiously resolving issues that otherwise would have been litigated.

Based on the foregoing criteria, the Parties respectfully submit that the Settlement Agreement meets the applicable legal standards. Accordingly, the Parties request that the Commission approve the settlement expeditiously and without modification.

WAIVER OF COMMENT PERIOD

The Parties request that the Commission waive the Comment requirements of Rules 51.4 and 51.5. The Settlement Agreement qualifies as an "all party" settlement pursuant to D.94-04-088, and waiver of the comment period is appropriate. The waiver will not harm any party and will allow this proceeding to be concluded in an expeditious manner.

SHORTENING OF COMMENT PERIOD ON PROPOSED DECISION

In the interest of expediting a final resolution to this case, the Parties request that the comment period on the Proposed Decision (PD) be shortened from 20 days to 7 days for Initial Comments, and from 5 days to 3 days for Reply Comments. (See CPUC Rule 77.2.)

APPENDIX A
Page 6

CONCLUSION

The Parties respectfully request that the Commission grant this Joint Motion and issue an order that: (1) Approves and adopts the attached Settlement Agreement as consistent with the law, reasonable, and in the public interest; (2)Waives the Comment requirements of Rules 51.4 and 51.5; and (3) Shortens the Comment period required by Rule 77.2.

Respectfully submitted,

/s/ GREGORY HEIDEN

Gregory Heiden
Staff Counsel

Attorney for the Office of Ratepayer Advocates

California Public Utilities Commission
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San Francisco, CA 94102
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August 16, 2005

APPENDIX A
Page 7

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of West Coast Gas Company to Revise its Gas Rates and Tariffs (U 910 G)	Application No. 05-04-014 (Filed April 5, 2005)

SETTLEMENT AGREEMENT

I. INTRODUCTION

Pursuant to Rule 51.1, 51.2, and 51.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), West Coast Gas Corporation ("WCG") and the Office of Ratepayer Advocates ("ORA"), collectively referred to as "Parties," have entered into a settlement ("Settlement Agreement") for the purpose of providing to the Commission a recommended resolution of all issues in Application No. (A.) 05-04-014.

APPENDIX A
Page 8

II. RECITALS

West Coast Gas is a corporation organized under the laws of the State of California. WCG is an operating public utility engaged, *inter alia*, in the business of furnishing gas services to Mather and Castle, which are located in the Sacramento area of California.

III. PROCEDURAL HISTORY

On April 5, 2005, WCG filed a test year (TY) 2005 general rate case (GRC) application for its gas distribution operations under the Commission's jurisdiction. In A.05-04-014, WCG seeks a $136,376 increase—to go into effect on July 1, 2005—for gas distribution operations at the Mather and Castle service territories; this amounts to an 8.5% increase over base rates currently authorized by the Commission.

On May 2, 2005, ORA filed a protest to WCG's application. A prehearing conference was held on June 14, 2005, and attended by WCG, ORA and the Energy Division. No other party made an appearance.

APPENDIX A
Page 9

On July 28, 2005, ORA Served a "Notice of Settlement Conference" to all parties on the service list of this proceeding. The Notice indicated that settlement talks would be held at the Commission's San Francisco office on August 8, 2005.

On August 8, 2005 representatives from ORA and WCG agreed on a settlement as presented below.

IV. SUMMARY OF SETTLEMENT CONDITIONS

As a compromise among their respective positions, the Parties agree that this Agreement resolves the issues raised in this General Rate Case application. It is understood and agreed to by the Parties hereto that the Settlement Agreement will also serve to expedite hearings and a decision in this proceeding. Each of the Parties, however, supports the Settlement Agreement as resolving all outstanding issues in this proceeding. The Parties further agree that the Settlement Agreement, either in whole or in part, shall have no express or implied precedential effect in any future proceeding. Accordingly, the Settling Parties request that the Commission adopt the Parties' recommendations as discussed below:

APPENDIX A
Page 10

APPENDIX A
Page 11

A. WCG's Proposed Revenue Requirement Increase

Parties agree to WCG's request for a $136,376 base rate revenue requirement increase in test year 2005 for WCG's gas distribution operations.

B. Rate Increases for Residential and Commercial Customers

Parties agree to a revenue allocation which results in an 11.0% rate increase, or $61,529 revenue requirement increase, for residential customers and a 7.132% rate increase, or $74,847 revenue requirement increase, for commercial customers. This still provides WCG with an overall rate increase of 8.5 percent.

C. Monthly Charge for Residential Customers

Parties agree to WCG's request to establish a $3 per month customer charge, with the provision that the charge is discounted by 20% for low-income residential customers.

D. Establishing Non-Refundable Application Fees

Parties agree to WCG's proposal to eliminate refundable customer deposits and replacing them with non-refundable application fees, provided that WCG: (1) set the one-time fee for residential customers at

$25 instead of $30; (2) discount the one-time fee by 20%—to make it $20—for low-income residential customers; and (3) give low-income customers the option to spread the one-time fee across four months' bills.

E. Correction to Financial Statements

Parties agree that WCG will make a correction to its financial statements, by reducing its long-term liability Account 231 (Loans from Stockholders) by $25,000, from $85,000 to $60,000.

F. PG&E Gas Transportation Charges

Parties agree that WCG can seek cost recovery, via the advice letter process, of any net revenue requirement increase associated with: (1) increases of Pacific Gas & Electric Company's (PG&E) gas transportation rates to WCG (see D.05-06-029); and/or (2) any incremental capital improvements to facilitate transmission level service from PG&E.

G. Next General Rate Case Filing

Parties agree that WCG may file its next base rate GRC application no earlier than April 1, 2008, for a 2009 test year.

APPENDIX A
Page 13

V. TERMS AND CONDITIONS

A. **Precedential Effect**: The Parties agree, as provided in Rule 51.8 of the Commission's Rules of Practice and Procedure, that adoption of the Settlement Agreement by the Commission shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding or in any future proceeding.

B. **Indivisibility of Settlement Agreement**: The Settlement Agreement represents a compromise of many positions and interests of the Parties hereto and no individual term is assented to by any Party except in consideration of the other Party's assents to all of the other terms of the Settlement Agreement. The Settlement Agreement is indivisible and each part is interdependent on each and all of the other parts. Any Party may withdraw from the Settlement Agreement if the Commission modifies, deletes or adds any term.

C. **Evidentiary Effect of Settlement Agreement**: The Parties agree, as provided in Rule 51.9 of the Commission's Rules of Practice and Procedure, that no discussion, admission, concession, or offer to stipulate or settle, whether oral or written, made during any negotiation leading to the Settlement Agreement shall be subject to discovery, or admissible in any evidentiary hearing against any participant who objects to its admission. Furthermore, if the Settlement Agreement is not adopted by the Commission, then the Parties agree that no portion of the Settlement Agreement, or any of its terms or conditions, or any of the discussions leading to it, may be subject to discovery or used in hearings in support of or in opposition to any Party or position without the prior express written consent of the Parties hereto.

D. **Settlement Agreement in the Public Interest**: The Parties agree by executing and submitting the Settlement Agreement that the Commission's approval and adoption of the Settlement Agreement is in the public interest, consistent with the law, and reasonable in light of the record. Approval of the Settlement Agreement will result in a resolution of this proceeding that is fair and reasonable and will avoid unnecessary litigation that would otherwise result.

APPENDIX A
Page 15

E. **Effectuation of Settlement Agreement**: The Parties agree to perform diligently and in good faith all actions required or implied hereunder, including, but not necessarily limited to, the execution of any other documents required to effectuate the terms of the Settlement Agreement, and the preparation of exhibits for, and presentation of witnesses at, any hearings which may be required in order to obtain the approval and adoption of the Settlement Agreement by the Commission.

F. **Entirety of Settlement Agreement**: The Settlement Agreement contains the entire agreement of the Parties hereto. The terms and conditions of the Settlement Agreement may only be modified by a writing subscribed by the Parties.

G. **Final Document:** A facsimile signature will have the same force and effect as the original.

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Dated this ____ day of August, 2005.

WEST COAST GAS CORPORATION

____
Raymond J. Czahar
Chief Financial Officer
West Coast Gas Corporation
9203 Beatty Drive
Sacramento, California 95826

OFFICE OF RATEPAYER ADVOCATES

____
R. Mark Pocta
Program Manager,
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

APPENDIX A
Page 17

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of "JOINT MOTION FOR ADOPTION OF SETTLEMENT AGREEMENT AND REQUEST FOR WAIVER AND SHORTENING OF COMMENT PERIOD" in **A.05-04-014** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on August 16, 2005 at San Francisco, California.

/s/ NANCY SALYER
Nancy Salyer

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

* *

APPENDIX A
Page 18

Office of Ratepayer Advocates
California Public Utilities Commission

Report on
West Coast Gas, Test Year 2005 General Rate Case
Application No. 05-04-014

San Francisco, California
July 25, 2005

APPENDIX A
Page 20

Office of Ratepayer Advocates' Report on West Coast Gas, Test Year 2005 General Rate Case Application No. 05-04-014

Table of Contents

APPENDIX A
Page 21

I. Summary of ORA's Recommendations

A. Results of Operations

1. West Coast Gas Company (WCG) indicates that it is only requesting partial rate relief for test year (TY) 2005—that the $136,376 rate increase request is about 53% of the amount required to produce a full after-tax return on rate base. WCG estimates that base rate revenues would need to be increased by $256,329 to earn a full return.
2. The Office of Ratepayer Advocates (ORA) conducted an independent evaluation and analysis which established that a $176,500 rate increase would be needed for WCG to earn a full return on rate base. Given the results from that evaluation and analysis, ORA does not oppose WCG's TY2005 request for a $136,376 base rate revenue requirement increase for its gas distribution operations.
3. The Commission should allow WCG to seek cost recovery, via the advice letter process, of any net revenue requirement increase associated with:
   a. increases of PG&E gas transportation rates to WCG (see D.05-06-029); and/or
   b. any incremental capital improvements to facilitate transmission level service from PG&E.
4. ORA recommends that the Commission not allow WCG to file a TY2006 General Rate Case (GRC) application, and, instead, should direct WCG to file its next base rate GRC application no earlier than April 1, 2008, for a 2009 test year.

B. Results of Examination

5. ORA recommends that WCG correct its 2005 financial statements to reflect an adjustment to the Account 231 (Loans from Stockholders) balance.

APPENDIX A
Page 22

C. Rate Design / Tariffs

6. ORA recommends a revenue allocation which results in an 11.0% increase to residential rates, which is 2.5% above the overall 8.5% increase that WCG requests. Correspondingly, ORA recommends a 7.132% increase to commercial rates.
7. ORA does not oppose WCG's request for establishing a $3 per month customer charge, provided that the charge is discounted by 20% for low-income residential customers.
8. ORA does not oppose WCG's proposal to eliminate refundable customer deposits and replacing them with non-refundable application fees, but recommends that the Commission order WCG to:
   a. set the one-time fee for residential customers at $25 instead of $30;
   b. discount the one-time fee by 20% for low-income residential customers; and
   c. give low-income residential customers the option to spread the one-time fee across four months' bills.

II. Background

On April 5, 2005, West Coast Gas Company (WCG) filed its test year (TY) 2005 general rate case (GRC) application for its gas distribution operations under the California Public Utilities Commission's (CPUC or Commission) jurisdiction. This application seeks a $136,376 increase—to go into effect on July 1, 2005—for gas distribution operations at the Mather and Castle service territories; this amounts to an 8.5% increase over base rates currently authorized by the CPUC.

Since WCG began regulated utility gas distribution operations at its Mather service territory in April 1997 and its Castle service territory in October 1998, it has not sought nor received a rate increase from the Commission.

APPENDIX A
Page 23

WCG's last general rate review was submitted in Advice Letter 49-G, which contained operating and cost of service data that WCG believes would have justified a 12.8% rate increase for TY2003. However, WCG requested that the Commission maintain WCG's gas distribution rates at their current levels, because WCG expected that future load growth would provide an opportunity to earn a full rate of return. Resolution G-3335, dated June 27, 2002, approved WCG's proposal to maintain rates at their current levels and instructed WCG to file for a general rate review by April 1, 2005.

In its application, WCG states that it is only asking for partial rate relief for TY2005. WCG asserts that the requested rate increase of $136,376 for TY2005 is about 53% of the amount required to produce a full after-tax return on rate base, equal to $256,329. WCG estimates that its return on rate base in 2005 will be a negative 4.43% without the requested $136,376 rate relief. WCG also requests the CPUC to allow the utility to file another GRC application by April 1, 2006.

Approximately 60% of WCG's requested revenue requirement increase would come from residential ratepayers and the remaining 40% from all other ratepayers. This results in a rate increase of 15% for residential ratepayers and 5% for commercial ratepayers.

WCG also seeks Commission authority to establish a monthly customer charge of $3 per residential customer. This rate design proposal would allow nearly one-half of the proposed rate increase to be spread over the entire year, as opposed to 90% of it being collected during the winter season.

WCG also proposes a change Gas Rule 7 related to residential customer deposits. WCG currently collects a $75 refundable deposit, which is refunded when the customer has made twelve consecutive and timely monthly payments. WCG requests that the Commission allow it to substitute a one-time, non-refundable $30 application fee for residential customers, to be collected at the time the customer applies for gas service.

APPENDIX A
Page 24

III. Results of Operations

A. Sales/Customers/Revenues

WCG estimates that its overall base rate revenue in TY2005 will decrease by about 2.4% relative to 2004, primarily because: (1) residential sales and revenues in TY2005 are expected to increase relative to 2004, since more homes at the Mather housing area were completed in early 2005; but (2) commercial sales and revenues in TY2005 are expected to *decrease* relative to 2004, since the developer of the housing at Mather has completed operations.

WCG states that, "[n]o additional homes will be constructed at Mather. WCG does not expect any growth in the commercial sector at either Mather or Castle in the foreseeable future."

ORA does not have any recommended adjustments to WCG's sales, customers, and revenues estimates for TY2005.

B. Expenses

WCG's testimony states that, "[t]est year operating expenses are forecasted to increase by 3.7% primarily due to increased labor costs for field personnel, charged to operating expenses." WCG proposed various adjustments to 2004 recorded expenses which included, but not limited to, re-allocating certain payroll, 5% wage increases, and higher medical insurance costs.

ORA's recommended expense levels for O&M, Customer Accounts, and A&G were primarily based on WCG's recorded 2004 expenses for those accounts. ORA incorporated WCG's proposed adjustments for outside services (Account 923), amortization (Account 405), and property taxes (Account 408.b), which ORA found reasonable. For all other accounts, ORA uses a 2.9% overall CPI escalation rate based on the most recent Global Insight forecast of the all-urban CPI for 2005 (May 2005 issue) instead of all of the various account-specific increases/adjustments that WCG proposes.

APPENDIX A
Page 25

C. Plant and Rate Base

ORA does not have any recommended adjustments to WCG's plant and rate base estimates for TY2005.

D. Cost of Capital

WCG's workpapers (Sheet 22) show the company calculating a 7.72% weighted cost of capital based on an imputed 40% debt and 60% equity ratio. ORA does not have any recommended adjustments to WCG's proposed cost of capital, or return on rate base.

E. Summary of Earnings

WCG is requesting a $136,376 increase for its TY2005 revenue requirement, to be effective July 1, 2005, for gas distribution operations at the Mather and Castle service territories. This represents an 8.5% increase over base rates currently authorized by the Commission. WCG asserts that the requested rate increase is only about 53% of the amount required to produce a full return on rate base.

ORA estimates that WCG would need a $176,500 increase as the amount of rate relief needed to produce a full return on rate base; this is lower than WCG's estimate of $256,329 being needed to produce a full return on rate base. Given that WCG did not request a full return on rate base, and given the results from its independent evaluation and analysis, ORA does not oppose WCG's TY2005 request for a $136,376 base rate revenue requirement increase for its gas distribution operations

APPENDIX A
Page 26

F. PG&E Gas Transportation Charges

WCG asserts that it "must make investments at Mather to avoid a large increase in the rates charged by PG&E for local gas transportation to the Mather housing area… Based on the proposed BCAP settlement, WCG has approximately one year to determine the least-cost method of avoiding these additional costs and approximately one year to implement the solution. A 2006 test-year rate base may include capital investments required to avoid this cost increase for residential ratepayers."

Since the time of WCG's filing, there has been an adopted BCAP decision, D.05-06-029, dated June 16, 2005. PG&E and WCG reached a settlement on this matter of gas transportation rates, which was adopted by the Commission. As stated in that decision, "The Agreement would phase in higher rates to cushion the impact on West Coast and to provide West Coast time to 'consider its options.' West Coast's revenue requirement would increase by 10% a year until PG&E's next BCAP. The shortfall would be allocated to other distribution customers." (D.05-06-029, p. 9.)

As a result of the settlement, PG&E will increase the local transmission rate by 20% over the next two years in the housing area of Mather, from the $0.037 per therm rate which it had been charging WCG. PG&E's current 2-year BCAP period expires on June 30, 2007. WCG indicates that, after the 2-year period, PG&E will increase its transportation charges to WCG's core customers by about $250,000 per year beginning on July 1, 2007. The average rate that PG&E charges WCG will then increase to $0.14/therm, and the higher rates would be passed-through to WCG's customers.

As an alternative, WCG is considering making capital improvements to connect the Mather housing area distribution system to the industrial area distribution system. WCG may: (1) construct a new 2.5 mile pipeline serving only the housing area, by connecting the housing area through the industrial area, to the PG&E interconnection point; and (2) have PG&E install a separate

APPENDIX A
Page 27

meter and regulators at the existing metering/regulation station in the industrial area. WCG estimates that the capital improvements could cost up to $250,000, which translates into a revenue requirement increase of about $45,000 per year. Based on WCG's estimates, such an investment would allow WCG to avoid the PG&E transportation charges that could be as high as $250,000/year, resulting in net savings to ratepayers.

The capital improvements that WCG is considering are not being reviewed in this rate case, so it is premature for ORA to make a recommendation to the Commission regarding WCG's likely alternatives (capital investments versus pass-through of higher PG&E transportation charges). However, ORA believes that the issues confronting WCG in this particular matter are narrow enough to warrant a more streamlined rate recovery process for WCG, regardless of which alternative the utility eventually decides to pursue.

Therefore, ORA recommends that WCG be allowed to seek cost recovery, via the advice letter process, of any net revenue requirement increase associated with: (1) increases of PG&E gas transportation rates to WCG (see D.05-06-029); and/or (2) any incremental capital improvements to facilitate transmission level service from PG&E.

G. Next General Rate Case Filing

WCG's testimony indicates that it wants to file a TY2006 GRC application because of the potential ramifications of the then-proposed PG&E BCAP settlement, and because it wants to avoid rate shock for its residential customers. ORA believes that: (1) the final BCAP decision, D.05-06-029, addresses and mitigates the former; and (2) the recommendations in this report address the latter.

APPENDIX A
Page 28

From a policy standpoint, there is no Commission precedent or policy to provide for the filing and processing of annual general rate case requests by any utility. The Rate Case Plan (D.89-01-040) provides for the filing of GRC proceedings of no more than once every three years, for all large and smaller energy utilities. The Commission and ORA do not possess the resources to dedicate to small companies filing continuous rate cases. The Commission should not allow WCG to deviate from the traditional rate case cycle by accelerating GRC filings.

ORA recommends that the Commission should: (1) not allow WCG to file a TY2006 GRC application; and (2) direct WCG to file its next base rate GRC application no earlier than April 1, 2008, for a 2009 test year.

IV. Results of Examination

ORA auditors went to WCG's offices in Sacramento on June 9 - 10, 2005, to review the utility's financial records. The financial record review essentially yielded the following conclusions:

- The expense and rate base amounts for year-ending 2004 were traced to the General Ledger and test-checked to various source documents.
- WCG's books and records are maintained in conformance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts, and no adjustments to the operational income and rate base amounts for base year 2004 were noted.
- The long-term liability Account 231 (Loans from Stockholders) balance should be reduced by $25,000, from $85,000 to $60,000, as the company disclosed that the $25,000 was recorded in error.

APPENDIX A
Page 29

Based on the results of examination, ORA recommends that WCG make an appropriate correction to its 2005 financial statements.

A copy of the examination report is attached to the back of this report.

V. Rate Design / Tariffs

WCG is requesting an overall rate increase of 8.5% which would result in an increase of 15% for residential ratepayers and 5% for commercial ratepayers. Approximately 60% of WCG's requested revenue requirement increase would come from residential ratepayers and the remaining 40% from other ratepayers. WCG says it used an embedded-cost method, which relied on historical accounting costs rather than marginal costs, to determine the rate increases and resulting rates for each rate schedule.

ORA is concerned about the disparity between WCG's proposed increases for residential and commercial rates. Rather than attempting to conduct an independent cost allocation analysis and study, ORA considered an equitable revenue allocation process consistent with its proposals for other small utilities that have been previously adopted by the Commission.[3] ORA recommends capping the rate increase for each customer class at no more than 2.5% above the overall rate increase. This results in an 11.0% increase to WCG's residential rates and a 7.132% increase to WCG's commercial rates. This still provides WCG with an overall rate increase of 8.5%.

[3] This is consistent with what the Commission adopted for Sierra Pacific (D.04-01-027) and Pacificorp (D.03-11-019).

APPENDIX A
Page 30

The 11.0% rate increase for residential customers translates into a $61,529 revenue requirement increase. The 7.132% rate increase for commercial customers translates into a $74,847 revenue requirement increase. Thus, about 45.1% of the requested revenue requirement increase would come from residential ratepayers while 54.9% would come from commercial ratepayers.

WCG also seeks CPUC authority to establish a $3 per month customer charge for residential customers. ORA does not oppose WCG's request for establishing a $3 per month customer charge, provided that the charge is discounted by 20% for low-income residential customers.

Finally, WCG seeks authority to change Gas Rule 7 related to its residential customer deposits. WCG currently collects a $75 refundable deposit, which is refunded when the customer has made twelve consecutive and timely monthly payments. WCG requests that the Commission allow it to substitute a one-time, non-refundable $30 application fee for residential customers, to be collected at the time the customer applies for gas service.

ORA does not oppose WCG's proposal to eliminate refundable customer deposits and replacing them with non-refundable application fees, but recommends that the company:

- set the one-time fee for residential customers at $25 instead of $30;
- discount the one-time fee by 20% for low-income residential customers; and
- give low-income residential customers the option to spread the one-time fee across four months' bills.[4]

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[4] There is Commission precedent in authorizing a $25 service establishment charge for customers (Southern California Gas Company), discounting the charge for low-income residential customers, and giving low-income residential customers the option of paying the charge across several months' bills (SBC). ORA considers them to be appropriate for WCG, as well.

Results of Examination

Introduction, Background and Summary

This review was made in connection with West Coast Gas Company's (WCG) Application (A.) 05-04-014 of April 5, 2005 to increase its gas base rates. The application requests an increase in revenue requirements of 8.5% or $136, 376. The Application is filed in accordance with Commission Resolution G-3335, dated June 27, 2002, which required WCG to file an application for a general rate case by April 1, 2005.

WCG's utility operations are in the service territories of the former Mather Air Force Base (AFB) and the former Castle AFB. Utility operations began in these territories in April 1997 and October 1998 respectively. At the end of 2004 WCG had approximately 1262 residential customers and 114 industrial customers, and currently has 6 employees.

No material adjustments to the operating income and expense accounts and the rate base accounts were identified during the course of ORA's examination of WCG's books and records. The stockholder loan account should be reduced from $85,000 to $60,000.

Scope

WCG's Application is requesting rates based on a 2006 test year which is primarily based on 2004 as a base year. Therefore, ORA's examination was focused on a review of the recorded results for 2004. The examination included but was not limited to the following procedures:

- General review of the books to be in compliance with the FERC system of accounts,

APPENDIX A
Page 32

- Tracing of reported amounts to the general ledger,

- Test check of entries to source documents based on both a random sample and subject matter,
- A reconciliation of amounts to the check register
- A review of allocated amounts to various accounts for reasonableness.

Aside from 2004's books and records, a general review of booked events for the years 2000-2003 was also covered, as well as specific follow-up questions proffered by other team members. An on-site guided field visit of the Mather service territory and facilities was made.

Discussion

WCG presents in its application the following results of operations for base year 2004:

FERC Account	Description	Amount ending 12/31/04
480,481 &	Base Rate Revenue	$542,144
760-766	Operating Expense	163,533
767,768,887	Maintenance Expense	45,593
901-904	Customer Accounting	89,366
920-935	A&G Expense	163,357
403	Depreciation	98,039
405	Amortization Expense	1,148
408	Taxes other than	26,230
409	Income Tax	1,223
	Total Operating	588,491
	Net Operating Income	$(46,347)

APPENDIX A
Page 34

WCG further presents the following rate base amounts for 2004:

FERC Account	Description	Amount ending 12/31/04
101	Gas Plant in Service	$2,573,326
105	Plant Held for Future Use	24,371
108	Accumulated Depreciation	(511,018)
	Net Utility Gas Plant in	$2,086,678
154	M&S and Working Cash	6,114
252	Customer Advances for	(33,036)
271	Contributions in Aid of	(489,650)
	Net Rate Base	$1,570,106

The amounts above were traced to the General Ledger and test checked to various source documents and to determine compliance with the FERC Uniform System of Accounts. No adjustments were noted.

In reviewing the nature of the $85,000 in stockholder loans (long term debt account 231) it was determined that the entire amount represents a loan from the principal stockholder of the company to fund plant additions since the year 2000. It was also disclosed by the company that $25,000 of the $85,000 account balance was recorded in error. The $25,000 was in fact a transfer from a WCG money market fund and not a loan. It was indicated that a journal entry to correct this will be made to the 2005 financial statements.

APPENDIX A
Page 35

Conclusion

It appears that the books and records of WCG are maintained in conformance with the FERC Uniformed System of Accounts and no adjustments to the operational income and rate base amounts for the base year of 2004 were noted. The long term liability account 231 (loans from stockholders) should be reduced from $85,000 to $60,000.

(END OF APPENDIX A)

APPENDIX B

************** SERVICE LIST *************
A.05-04-014

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